

Institute of Indigenous Medicine Affiliated to the University of Colombo - 2013

The audit of financial statements of the Institute of Indigenous Medicine Affiliated to University of Colombo for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 107(5) of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the University in terms of Sub-section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Institute of Indigenous Medicine Affiliated to the University of Colombo as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Government Capital Grants amounting to Rs.312,100 had been utilized for recurrent expenditure and as such, the Unspent Government Capital Account and the Government Capital Cash Balance had been understated by that amount.
- (b) Retention money on the purchase of laboratory equipment amounting to Rs.586,100 had been recorded twice and as such the Laboratory Equipment Account and the Retention Money Account had been overstated by that amount.
- (c) Even though 05 categories of fixed assets had been revalued for Rs.318,070,239 in the year 2011, depreciation had not been correctly computed as the effective life of those assets had not been identified.
- (d) The receipts from the sponsors amounting to Rs.2,737,736 to defray the expenditure on the International Conference on Unani and Ayurveda held in December 2013 and the expenditure thereon amounting to Rs.2,540,826 had been brought to account as current liabilities without being reflected in the Income and Expenditure Account without identifying the expenses payable from the further balance available amounting to Rs.196,910.
- (e) Even though the balance of the Cancelled Cheques Account amounted to Rs.179,051, it was observed that according to the Register of Cancelled Cheques, that balance amounted to Rs.1,664,810. The account had not been settled by identifying the difference. Nevertheless, a sum of Rs.31,797 only had been transferred to the General Reserve Account in the year without being identified.
- (f) One hundred and ninety seven units of assets of 67 categories of assets had been sold for Rs.49,665 at the auction of obsolete goods held on 14 December 2012 and action had not been taken to identify the cost of those and eliminate from the accounts. The depreciation for the year under review had been computed on the total cost of the assets and brought to account.

2.2.2 Accounts Receivable

The following observations are made.

- (a) Action had not been taken for the recovery from the University Grants Commission, the sum of Rs.79,000 paid by the Institute in the year 2012 as the cost of air travel of a Lecturer who proceeded abroad for postgraduate training under the financial sponsorship of the University Grants Commission.
- (b) In the payment of retention money to the contractors debiting other accounts instead of the Retention Money Account had been established from the payments made in the year under review as well. As such, it was not possible to establish in audit that the sum of Rs.1,593,064 retained from a contractor in the year 2006 on 03 contracts remaining as the balance of the Ledger Account on Retention Money is not an unpaid amount.

2.2.3 Lack of Evidence for Audit

The evidence indicated against the following items of account shown in the financial statements had not been furnished for audit.

Item of Account -----	Value ----- Rs.	Evidence not made available -----
(a) Retention Money	5,837,623	Proper and completed Register and the Age Analysis.
(b) Non-financial Adjustments in the Cash Flow Statement	159,219	Detailed Schedule.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----	
(i) Financial Regulation 188(2)	Action in terms of the Financial Regulation had not been taken on 08 deposits amounting to Rs.12,027 remaining in two Current Accounts without being realized over several months.
(ii) Financial Regulation 752(2)	Action in terms of the Financial Regulation had not been taken on shortages of 60 units of goods and

- excesses of 84 units of goods appearing in the Reports of the Boards of Survey for the years 2012 and 2013.
- (b) Circular No. 09/2002 dated 16 October 2002 of the University Grants Commission. Overtime amounting to Rs.1,256,570 had been paid without authority to 81 out of the total non-academic staff of 89 for performing normal duties. According to the provisions of the Circular, 25 per cent of the approved provision should be withheld, but 99 per cent had been spent.
- (c) Public Enterprises Circular No. 95 of 14 June 1994. A sum of Rs.1,089,877 had been paid in the year under review to the academic and non-academic staff for the duties performed during the normal duty hours without the approval of the Treasury.
- (d) Public Finance Circular No. 364(3) of 30 September 2002 – Paragraph 5 Even though the monthly returns on the payment of Value Added Tax should be sent to the Commissioner General of Inland Revenue with copy to the Auditor General, it had not been done in connection with a sum of Rs.3,054,587.
- (e) Public Finance Circular No. 441 of 09 December 2009. The Board of Survey had not been conducted within the specified period.
- (f) Treasury Circular No. 842 of 19 December 1978 and the Management Audit Circular No. DMA/2009(2) of 11 October 2009. An updated Register of Fixed Assets had not been maintained.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Institute for the year ended 31 December 2013 amounted to a deficit of Rs.98,204 as compared with the corresponding deficit of Rs.12,270,709 for the preceding year. The increase of the Government grants by a sum of Rs.34,803,825 had been the main reason for the improvement of the year under review as compared with the preceding year by a sum of Rs.12,172,505.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The recurrent expenditure incurred on the 876 students who were engaged in academic activities in the year amounted to Rs.223,548,286 and as such the cost per student amounted to Rs.255,192.
- (b) Out of the 1,061 students registered for the Courses of the Institute, 185 students had abandoned the Courses by the year under review and that represented 17 per cent of the number of students registered.
- (c) It was observed that out of the students sitting the examinations, a considerable number of students fail the examinations and out of the 1,632 students who sat the annual examinations from June 2011 to November 2013, six hundred and ninety two students or 42 per cent had failed the examinations.
- (d) Even though a newspaper notice costing Rs.26,880 had been published for the Diploma Course on Pharmacology held continuously over several years, that course could not be conducted in the year 2013 as an adequate numbers of applications had not been received.
- (e) Twelve Lecturers attached to academic staff of the Ayurveda and Unani Degree Courses had obtained fees amounting to Rs.132,500 by conducting 135 hours of lectures and practicals during the normal duty hours for the Ayurveda Medical Specialist Course only during May, June and July 2013.
- (f) Even though a foreign training of 06 months should be obtained in accordance with the syllabus of the Ayurveda Medical Specialist Course, three month training only had been given without the approval of the University Grants Commission.
- (g) The overhead expenditure amounting to Rs.291,470 met by the Government for the postgraduate courses had been met from the funds of the Institute instead of being settled from course income.

4.2 Management inefficiencies

The following observations are made.

- (a) A sum of Rs.660,825 had been spent by adducing that the Lecturers and students participated in the Deyata Kirula Exhibition without an estimate approved in advance and without approving duty leave. That included motor vehicle hire charges of Rs.81,000, printing expenses of Rs.35,000 and a bill for Rs.52,265 for the purchase of medical equipment on a date after the close of the exhibition.
- (b) The course of action taken on 3,810 unsuitable books, 188 books borrowed and not returned and 4,882 books not available physically included in the Report of the Board of

Survey of Library Books for the year 2012 had not been furnished to audit. Adjustments for those had not been made in the accounts.

4.3 Operating Inefficiencies

The following observations are made.

- (a) Even though the Website of the University Grants Commission indicated that only 25 students in excess had been referred to the Institute for the academic year 2013/2014, the Institute had newly purchased 375 students arm chairs for Rs.2,079,000.
- (b) Even though money had been idling in the Postgraduate Current Account, Government grants amounting to Rs.453,600 had been spent for the purchase of 60 lecture hall chairs for that Division.
- (c) Out of the provision of Rs.6,000,000 made for carrying out improvements to the playground a sum of Rs.2,372,132 had been spent in 05 instances for purchase of earth by following the shopping procedure without preparing measurements and estimates.

4.4 Transactions of Contentious Nature

Even though a grant of Rs.590,000 comprising Rs.297,000 in the year 2006 and Rs.293,000 in the year 2008 had been given through the National Centre for Higher Education in Humanities and Social Sciences to a Senior Lecturer of the Institute to read for the Doctor of Philosophy Degree, had been employed in a foreign country for one year in the year 2011 without obtaining academic leave. As he had not submitted the specified progress reports, the evidence in support of following the Doctor of Philosophy Degree had not been furnished to audit.

4.5 Underutilization of Funds

According to the Postgraduate Cash Book, the average monthly payments in the year 2013 amounted to Rs.326,928 while an average cash balance of Rs.1,662,690 had been maintained. The Cash balance as at 31 December 2013 amounted to Rs.2,727,387. Action in terms of the Public Enterprises Circular No. 30 of 13 July 2005 had not been taken for earning additional income by the investment of surplus money in the Temporary Trust Fund of state Institutions.

4.6 Uneconomic Transactions

Even though two air conditioners handed over to a private institution for repairs after obtaining quotations those had been recovered in accordance with a subsequent decision that it was not economical to repair the machines. Nevertheless, a sum of Rs.11,650 had been spent for checking those machines.

4.7 Deficiencies in Contract Administration

Quotations had been obtained from two institutions for the construction of a semi-permanent building for the conduct of lectures for the students of the academic year 2013/2014 without

preparing building plans and estimates and an expenditure of Rs.4,743,282 had been incurred according to the plans and estimates of the selected contractor.

4.8 Resources of the Institute given to other Government Institutions

An employee recruited to the labour service on 01 August 2013 had been released from the date of recruitment to the Ministry of Higher Education without obtaining the approval of the Cabinet of Ministers in terms of Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003. A sum of Rs.101,203 had been paid by the Institute as salary and the contributions to the Employees' Provident Fund and the Employees' Trust Fund for the period from that date up to 31 December of the year under review.

4.9 Personnel Administration

Forty vacancies existed in the approved posts of the academic and non-academic staff as at 31 December 2013.

4.10 Utilization of Motor Vehicles

A motor vehicle purchased 04 years ago had been painted at a cost of Rs.315,971 after running 50,300 kilometres without calling quotations. The battery valued at Rs.10,350 used only for two days had been removed during internal repairs and replaced with another battery costing Rs.11,120.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented within 60 days after the close of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements for the year under review had been presented only on 03 April 2014.

5.2 Internal Audit

The Internal audit of the Institute is done by the Internal Audit Unit of the University of Colombo. Nevertheless, due to the non-preparation of the Internal Audit Plans in accordance with the resources available, an internal audit had not been carried out and internal audit queries had not been issued in the year under review.

5.3 Budgetary Control

The following observations are made.

- (a) The budgeted income statement, balance sheet and the cash flow statement had not been presented with the budget in terms of Guideline 5.2.1 of the Public Enterprises Guidelines on Good Governance No. PED/12 of 02 June 2003.

- (b) Variances ranging from 17 per cent to 74 per cent were observed between the budgeted income and expenditure and the actual income and expenditure thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. Systems and Controls

Deficiencies in Systems and Controls observed during the course of audit were brought to the notice of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Financial Control
- (c) Fixed Assets Control
- (d) Budgetary Control
- (e) Preparation of Plans
- (f) Performance
- (g) Procurement
- (h) Advances